28 DEC 1982

John,

I have sent a copy of this circular to OF Compensation and Tax asking them if attached message can be included on Earnings and Leave Statements. They will call you. Should we also put this in an Agency notice? OP/B&S Div?

Bill

[redacted] Pls fwd to Bill [redacted], C/RCD, OIS for Action. [redacted]

STAT

STAT

Done Csm 1/3/83

1-2

# ROUTING AND RECORD SHEET

SUBJECT: (Optional)

| FROM: | EXTENSION | NO. |
|---|---|---|
| [redacted] Acting EO/DDA 7D-18 Hqs | [redacted] | DDA 82-3049 STAT |
| | | DATE 28 December 1982 STAT |

| TO: (Officer designation, room number, and building) | DATE RECEIVED | DATE FORWARDED | OFFICER'S INITIALS | COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.) |
|---|---|---|---|---|
| 1. C/CD/OF 710 Key Bldg | | | | 1: Please call [redacted] EO/DDA, on extension [redacted] as to whether requested message can be included on Earnings and Leave Statements. STAT STAT |
| 2. | | | | /s/ [redacted] STAT |
| 3. | | | | |
| 4. | | | | |
| 5. | | | | |
| 6. | | | | A/EO/DDA [redacted] ba(28Dec82) STAT<br>Distribution:<br>0 - Adse w/cy att<br>1 - DDA Subj w/att<br>1 - EO Chrono w/o att |
| 7. | | | | |
| 8. | | | | |
| 9. | | | | |
| 10. | | | | |
| 11. | | | | |
| 12. | | | | |
| 13. | | | | |
| 14. | | | | |
| 15. | | | | |

FORM 610 USE PREVIOUS EDITIONS
1-79

# EXECUTIVE SECRETARIAT

## Routing Slip

| TO: | | ACTION | INFO | DATE | INITIAL |
|---|---|---|---|---|---|
| 1 | DCI | | | | |
| 2 | DDCI | | | | |
| 3 | EXDIR | | | | |
| 4 | D/ICS | | | | |
| 5 | DDI | | | | |
| 6 | DDA | | ✓ | | |
| 7 | DDO | | | | |
| 8 | DDS&T | | | | |
| 9 | Chm/NIC | | | | |
| 10 | GC | | | | |
| 11 | IG | | | | |
| 12 | Compt | | | | |
| 13 | D/EEO | | | | |
| 14 | D/Pers | | | | |
| 15 | D/OEA | | | | |
| 16 | C/PAD/OEA | | | | |
| 17 | SA/IA | | | | |
| 18 | AO/DCI | | | | |
| 19 | C/IPD/OIS | | | | |
| 20 | | | | | |
| 21 | | | | | |
| 22 | | | | | |

SUSPENSE ____________ Date

**Remarks:**

[redacted] STAT

Executive Secretary

12/27/8

Date

3637 (10-81)

82-3049

# Interagency Savings Bonds Circular

OFFICE OF THE CHAIRMAN WASHINGTON, DC 20226

November 1982

COMMITTEE CIRCULAR NO. 83-1

TO: INTERAGENCY SAVINGS BONDS COMMITTEE, ALTERNATE COMMITTEE MEMBERS AND AGENCY SAVINGS BONDS COORDINATORS

Subject: Market-Based Rate

It is my pleasure to announce that as of November 1, 1982, U. S. Savings Bonds will offer a variable market-based rate for all Savings Bonds held five years or longer. The rate will be 85% of the yield on Treasury marketable securities that are 5 years from their maturity. A rate will be set every six months based on market yields during the foregoing half year.

At the end of 5 or more years, the 10 or more six-month rates will be averaged to determine a bond's yield, compounded semiannually, from date of issue. The first semiannual rate (for periods beginning November 1982 through April 1983) is 11.09 percent.

We need your help in getting accurate information to all Federal employees. Attached is a copy of the following:

1. News Release
2. Facts About Changes in Savings Bonds
3. The Market-Based Rate on U.S. Savings Bonds - A Briefing
4. Questions and Answers on Market-Based Interest Rate
5. The Effect of the Market-Based Rate - A Table

We ask that you use this information on bulletin boards and in employee communications (newsletters, etc.) to publicize the change in the rate structure between now and your campaign this spring.

In addition, we ask that the following message be imprinted on all Earnings & Leave Statements in your Department or Agency: **Savings Bonds purchased after November 1, 1982, offer a variable market-based interest rate if held 5 years. Bonds purchased prior to November 1, 1982, and held for five additional**

*Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan*

**years, will also benefit automatically from this new rate structure. Hold onto your old bonds and keep buying Series EE Bonds through payroll savings.**

If additional information is required, please contact Robert J. Sweeney, Federal Payroll Savings Officer, U.S. Savings Bonds Division (202) 634-5385.

Your help in carrying this message to all Federal Employees is greatly appreciated.

Samuel R. Pierce, Jr.
Secretary of Housing and Urban Development
Chairman, Interagency Savings Bonds Committee

U.S. Savings Bonds

U.S. SAVINGS BONDS DIVISION DEPARTMENT OF THE TREASURY WASHINGTON, D.C. 20226

Savings Bonds Features

FOR IMMEDIATE RELEASE

Contact: Richard Steiger
(202) 634-5388

SAVINGS BONDS EARN 11.09 PERCENT
IN FIRST MARKET-BASED PERIOD

Treasurer of the United States Angela M. Buchanan today announced that United States Savings Bonds will earn 11.09 percent interest during their first market-based interest period, November 1, 1982 to April 30, 1983. The rate is effective for Series EE Bonds purchased between November and April, and for Series E and EE Bonds and Savings Notes with semiannual interest periods beginning during those months, when they are held at least five years.

In making the announcement, Treasurer Buchanan said, "The purpose of the market-based rate is to provide a competitive interest rate for bondholders regardless of market conditions. Now there is no limit on how much Savings Bonds can earn."

Under the market-based interest system that went into effect November 1, new bonds and those already outstanding receive 85 percent of the average return on five-year Treasury marketable securities when held five years or longer after November 1, 1982. Each semiannual Savings Bond rate is based on the Treasury five-year rate for the preceding six months.

(over)

The current 11.09 percent rate is based on an average market return of 13.05 percent on five-year Treasury securities between May and October 1982. The next Savings Bond rate will be announced in May 1983, based on the average five-year Treasury rate between November 1982 and April 1983.

The market-based interest system keeps interest rates on Savings Bonds held at least five years parallel with market rates during the same period. The market-based rate is calculated every six months.

The redemption value of a bond held five years or longer is determined by the Treasury by averaging each of the six-month rates and compounding semiannually from the first period. As always, bondholders can find the redemption value of their bonds using the Table of Redemption Values provided by the Treasury Department to banks and other redemption agents.

New bonds are guaranteed to earn a minimum rate of 7.5 percent, compounded semiannually, if held five years or longer. Series EE Bonds purchased before November 1, and all Series E Bonds and Savings Notes issued since November 1947, retain their guaranteed yields as a minimum to the end of their original or current-extended maturity periods. The minimum yield is effective only if the market-based rate falls below the guarantee.

#####

# FACTS ABOUT CHANGES IN SAVINGS BONDS

## WHAT?

What has changed: The market-based rate formula is a new way of setting interest yields on Series EE as well as outstanding Series E Bonds (issued after October 1947) and Savings Notes (Freedom Shares) held 5 years or longer after November 1982. It is made possible by legislation passed by Congress that allows the Secretary of the Treasury, with the approval of the President, to set Savings Bonds rates. With the change to a market-based rate, original maturity is set at 10 years, based on the time it takes a bond to grow from issue price to the face value at the guaranteed minimum rate of 7.5 percent per annum, compounded semiannually.

What has not changed: Series EE Bonds still enjoy the familiar advantages of safety, convenient purchase and redemption, freedom from market risk, guaranteed replacement if lost, stolen or destroyed, choice of registration, exemption from state and local income and property taxes, and federal income tax deferral on interest. Series EE Bonds are still sold at half their denomination and guaranteed to reach face value at maturity. Bonds will reach face value before maturity if the market-based rate is higher than the guaranteed minimum rate.

## HOW?

How the market-based rate works: New Series EE Bonds now earn 85 percent of the average market yield on 5-year Treasury securities during the bonds' lifetime, compounded semiannually, when the bonds are held 5 years or longer. This rate also applies to outstanding Series EE and E Bonds and Savings Notes issued after October 1947, if they are held 5 years from the first semiannual interest accrual date on or after November 1, 1982. The average market yield will be calculated every six months for the period (five years or longer) that the bond or note has been held under the new rate.

Should market rates rise, Savings Bonds will keep pace with them. Should market rates decline over a long period, Savings Bonds are guaranteed to earn no less than 7.5 percent when held five years or longer under the new rates.

WHEN?

When market-based rates take effect: Series EE Bonds issued in or after November 1982, and held 5 years or longer, will earn the market-based rate from their date of issue. Outstanding Series EE and E Bonds and Savings Notes will begin to earn the market-based rate with their first full six-month interest period beginning on or after November 1, 1982, if they are held 5 years or longer from that date and have not reached final maturity. (The only E Bonds ineligible for the new rate will be those issued before November 1947, which will reach final maturity, and stop earning interest, before November 1987.)

When market-based rates are not earned: New Series EE Bonds redeemed less than 5 years from issue, and outstanding Series E and EE Bonds redeemed or reaching final maturity less than 5 years after the new rate takes effect, will continue to earn fixed, guaranteed interest rates. New Series EE Bonds earn 5.5 percent if redeemed after 1 year, rising gradually thereafter. They may be redeemed at any time starting 6 months from issue. Outstanding Series E and EE Bonds held less than 5 years under the new formula will earn their currently guaranteed rates: 8.5 percent for matured Series E Bonds through the end of their current extended maturity period1/, and between 6 percent and 8.5 percent, from date of issue, for unmatured Series E and EE Bonds, depending on how long they are held and when they were issued. Bonds and Notes entering a new extended maturity period will earn interest at the new guaranteed minimum of 7.5 percent until they qualify for market-based interest.

---

1/ Series E Bonds issued in 1951 or later have these guaranteed minimum rates increased by one-half percent if held until 1991.

WHY?

Why a market-based rate: The market-based rate assures holders of both new and outstanding accrual Savings Bonds and Notes that they will automatically earn higher rates of interest at times of high market rates. High market rates do not leave bond owners at a disadvantage or force the Treasury to replace declining Savings Bond holdings with more costly and inflationary market borrowing. The ability of the new bond rate structure to adjust both upward and downward (to a guaranteed floor) allows higher rates to be paid than would be prudent if it meant a long-term rate increase for all $67 billion of new and outstanding bonds.

Why 85 percent and not full market rates? Why a 5-year holding period to earn the full benefit of the market-based rate? Savings Bonds are still, as always, a savings instrument and not an investment security. Their low purchase price, starting at $25, Federal tax deferral, eligibility for redemption on demand without market risk, and interest improvements during their lifetime are all benefits to the saver which Treasury marketable securities do not have. Savings Bonds at 85 percent of market rates will still benefit the taxpayer and the economy by replacing billions of dollars a year of market borrowing with less costly and non-inflationary saving by individual Americans.

# The Market-Based Rate on U.S. Savings Bonds... A Briefing

The Department of the Treasury has announced a new interest computation system for Series EE Savings Bonds (and most Series E Bonds and U.S. Savings Notes), effective November 1, 1982. The major provisions of the change are outlined below.

## How Market-Based Interest Works

Every six months, the Treasury Department compiles the average market interest rate on all Treasury marketable securities that are five years from their maturity during the previous half year. The rate on new Series EE Savings Bonds for the following six months is 85 percent of that market average. At the end of five years, the 10 semiannual averages are added, averaged, and the average is compounded on a semiannual basis to determine a bond's five-year yield. EE Bonds held longer than five years have additional semiannual market averages computed in and compounded.

## Minimum Guaranteed Yield

The minimum yield on new EE Bonds held five years or longer is 7.5 percent per annum, compounded semiannually.

## Bonds Eligible for Market-Based Interest

All Series EE Bonds issued on or after November 1, 1982, are eligible to receive market-based interest if held five or more years. In addition, outstanding Series E and EE Bonds and Savings Notes that are still outstanding and earning interest on and after November 1, 1987, will earn market-based interest effective November 1, 1982.

## Bonds Not Eligible

- Series E Bonds issued from May 1941 through October 1947 will reach final maturity, and stop earning interest, before November 1, 1987, and are not eligible for market-based interest. They receive their guaranteed yields to final maturity.

- Series E and EE Bonds and Savings Notes held less than five years after November 1, 1982. New EE Bonds earn interest on a fixed, graduated scale (beginning at 5.5 percent after one year) if held less than five years. Older EE Bonds and all Series E Bonds and Savings Notes retain their guaranteed yields as a minimum to the end of their current initial or extended maturity periods.

- All Series H and HH Bonds. These Bonds will continue to pay a fixed yield.

## What the Changes Mean to Consumers

Bond owners and bond buyers are now guaranteed to receive 85 percent of the average return on five-year Treasury marketable securities, if they hold their bonds at least five years after November 1, 1982 (or 7.5 percent, whichever is more). This will keep their interest return competitive during periods of changing market conditions. There will be no change in the ways Savings Bonds can be purchased (payroll savings at companies, Bond-A-Month or over-the-counter at banks), or in the way bonds are redeemed.

## Additional Information

Details on the market-based interest rate will be issued by the Department of the Treasury. Questions about any aspect of the new rate structure can be addressed to the Office of Public Affairs, U.S. Savings Bonds Division, Department of the Treasury, Washington, DC 20226.

Page Denied

QUESTIONS AND ANSWERS ON
MARKET-BASED INTEREST RATE

1. Why has the Treasury changed the fixed-rate interest system on Savings Bonds?

    A. With market interest rates showing great volatility in recent years, a fixed-rate of interest on accrual bonds and notes has not provided bond holders with an equitable return on their savings. Now, with interest rates based on market conditions during the holding period, bond holders can be confident that no matter what interest rates do in the future, their bond holdings will keep pace.

2. Where can I buy Savings Bonds?

    A. Series EE bonds can be bought over-the-counter at most commercial banks and other financial institutions, or through the Payroll Savings Plan offered by thousands of employers. Payroll savings offers employees the opportunity to buy bonds in installments allotted directly from their pay. Millions of individuals have found this an easy and convenient way to save.

3. Have any of the safety or tax features of bonds changed?

    A. No. Bonds will continue to be replaced by the Treasury when lost, stolen, or destroyed. And, with the interest rate now tied to 85 percent of the five-year market rates, bonds are safe against the vagaries of market conditions. Interest earned on accrual bonds and notes remains exempt from state and local income taxes, and Federal tax may be deferred until the bonds are cashed or reach final maturity. E and EE Bonds and Savings Notes (Freedom Shares) may also be exchanged, with the option to continue tax deferral, for current-income Series HH Bonds (see question 12).

4. What are the denominations and purchase prices of EE Bonds?

   A. EE Bonds are purchased at half their face amount. Denominations range from $50 to $10,000, but most people buy the $50, $75, $100, or $200 denominations. No other instrument offers market-based interest on as little as $25, the price of a $50 Savings Bond.

5. How will interest be paid on Series EE Savings Bonds issued on or after November 1, 1982?

   A. Interest on EE Bonds is compounded semiannually and is paid as part of the redemption value when the bonds are redeemed. Interest accrues on a fixed increasing scale until a bond is held five years. When held five or more years, interest accrues at 85 percent of the average yield on outstanding five-year Treasury marketable securities for the entire period the bond is held. In the event that market rates drop to very low levels, the guaranteed minimum yield if held five or more years is 7-1/2 percent.

6. How is the market-based rate set?

   A. Every six months, the Treasury computes the average market yield on five-year Treasury marketable securities during the previous half-year. The savings bond rate is set at 85 percent of the market average. At the end of five years, the average of the 10 semiannual rates, compounded on a semiannual basis, determines a bond's five-year yield. If bonds are held six years, the average of the 12 semiannual rates, compounded on a semiannual basis, determines a bond's six-year yield, and so on. Bonds held less than five years continue to earn interest on a predetermined, graduated scale, as they have in the past.

7. Will the market-based rate apply to my outstanding bonds/notes?

   A. Yes. If Series E and EE Bonds and Savings Notes are held five years after November 1, 1982, you will receive a market-based return or the guaranteed minimum rate, whichever is higher. (Series E Bonds issued before November 1947, which will mature prior to satisfying the five-year holding requirement, are not eligible for the market-based rate.) If you cash your bonds within five years, you will receive the guaranteed return. Established rates on outstanding bonds and notes are guaranteed to the end of the original or current extended maturity period. When bonds and notes enter the next ten-year extension the guaranteed minimum rate will be the same as newly issued Series EE Bonds (now 7-1/2 percent) and interest will accrue at that rate until the market-based rate becomes applicable.

8. Should I cash in my old bonds to buy the new bonds?

   A. No. The guaranteed rate for the first five years is higher for outstanding bonds than newly issued bonds and will be the base against which the market-based rate will be compared. As for the Series E Bonds issued prior to November 1, 1947, they are earning 8-1/2 percent per annum, compounded semiannually, to maturity. One consideration to bear in mind is that accrued interest is reportable on an individual's Federal tax return when a bond is redeemed or matures, whichever occurs first.

9. What if market rates go very high -- say to 20 percent or more?

   A. Regardless of how high market rates go, accrual bonds and notes will earn 85 percent of the average yield on five-year Treasury marketable securities during the holding period, if held five years or longer. In the unlikely event that market rates averaged 20 percent during a six-month period, an interest rate of 17 percent for the following six-month period would be included in determining the average for the holding period. Please refer to question 6 for details on the calculation of overall rates.

10. What if market interest rates fall to very low levels -- say 3 or 4 percent?

    A. A guaranteed minimum rate of 7-1/2 percent has been established for newly issued Series EE Bonds held five years or longer. The guaranteed minimum rate for outstanding bonds is generally higher. The market-based rate is developed twice a year by averaging the yields on five-year Treasury securities over the life of the bond if issued on or after November 1, 1982, or from the first full semiannual reporting period on or after that date for outstanding bonds. If the average rate would yield less than 7-1/2 percent for the holding period for new issues or less than the guaranteed rate for outstanding bonds the guaranteed minimum rate would be applied to determine the value of the bond.

11. What if I need to cash in my bonds before five years are up?

    A. Series EE Bonds may be cashed any time six months after purchase. Series E and EE Bonds and Savings Notes outstanding will receive their currently guaranteed rates if cashed within five years. New issues have a graduated yield curve that increases from 5-1/2 percent for bonds held one year to 7.5 percent (or higher market-based rate) for bonds held five to ten years.

12. What is the status of Series HH Savings Bonds?

A. Although HH Bonds will no longer be issued for cash, they will continue to be sold on exchange for Series E and/or EE Bonds and Savings Notes with a total redemption value of $500 or more. New issues of Series HH Bonds will pay interest semiannually by check at a flat rate of 7-1/2 percent. Older HH Bonds, and Series H Bonds, will continue to receive their guaranteed interest rates to the end of their original or current extended maturity period. Persons who obtain HH Bonds by exchange may continue to defer reporting the interest income from the exchanged securities, for Federal tax purposes, until the HH Bonds are redeemed or reach final maturity.

U.S. Savings Bonds Division
Office of Public Affairs
(202) 634-5389
October 27, 1982

# THE EFFECT OF THE MARKET-BASED RATE

| 5-Year Average for Treasury Marketables* | 85% of Average | Rate on Savings Bonds Held 5 Years ** |
|---|---|---|
| 14% | 11.9% | 12.0% |
| 12 | 10.2 | 10.25 |
| 10 | 8.5 | 8.5 |
| 8 | 6.8 | 7.5 |
| 6 | 5.1 | 7.5 |

* Securities with remaining maturities of approximately five years.

* * Rounded to the nearest one-quarter percent.